

Message Text

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ACTION EB-11

INFO OCT-01 ARA-16 EUR-25 EA-11 ISO-00 CIAE-00 DODE-00

PM-07 H-03 INR-11 L-03 NSAE-00 NSC-07 PA-04 RSC-01

PRS-01 SP-03 SS-20 USIA-15 FEA-02 AEC-11 AID-20

CEA-02 CIEP-02 COME-00 FPC-01 INT-08 OMB-01 SAM-01

SCI-06 STR-08 TRSE-00 FRB-03 GSA-02 DRC-01 /207 W

----- 118352

R 150805Z JUL 74

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 3336

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRIDGETOWN

EC BRUSSELS 164

AMEMBASSY CARACAS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY MOSCOW

AMEMBASSY OTTAWA

AMEMBASSY PARIS

OECD PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

C O N F I D E N T I A L JAKARTA 8676

EO 11652: GDS

TAGS: EMIN EFIN EIND US ID

SUBJ: ASSESSMENT OF INVESTMENT, TAXATION, AND
EXPROPRIATION TRENDS IN THE ALUMINUM/BAUXITE
INDUSTRY

REF: A. STATE 145450 B. JAKARTA A-118

1. INDONESIA IS IN NO POSITION AT PRESENT TO TAKE A
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DECISIVE STEP IN SUPPORT OF INTERNATIONAL BAUXITE ASSOCIATION

(IBA) WHICH WOULD MENACE MULTI-HUNDRED-MILLION-DOLLAR ALCOA MINING AND ALUMINA-REFINING PROJECTS COMING UP FOR DISCUSSION IN NOVEMBER. LONGER-TERM GOI ATTITUDE TOWARD FOREIGN BAUXITE PRODUCERS (MEANING ALCOA) ESSENTIALLY PART OF ATTITUDE TOWARD ALL FOREIGN MINING COMPANIES AND LIKELY TO BE INFLUENCED ONLY marginally BY OTHER BAUXITE PRODUCING COUNTRIES. POLICY BACKGROUND PROVIDED REFERENCE B.

2. COMMENT ON SUBJECTS RAISED PARA 2 REF A FOLLOWS:

A. BAUXITE EXTRACTION AND REFINING PLANS KNOWN TO EMBASSY (ONE NEW MINING/REFINING PROJECT BY ALCOA; ONE EXISTING STATE-OWNED MINE TO BEGIN REFINING) REPORTED REF B. NEWS FROM JAMAICA, WHILE DISTURBING, HAS NOT ALTERED ALCOA'S DETERMINATION TO PROCEED. PLANS ARE BASED ON EXPANDING GENERALIZED WORLD MARKET FOR ALUMINA RATHER THAN LINKED WITH SPECIFIC MARKET. AMONG SELLING PROSPECTS ARE INDONESIA'S OWN PROJECTED ALUMINUM SMELTER AT ASAHAN, FOR ABOUT HALF OF OUTPUT; JAPAN; AND PERHAPS THE US. IN ACCORDANCE WITH CURRENT GOI POLICY THINKING, STATE ENTERPRISE ANEKA TAMBANG LIKELY TO RETAIN CONTROL OF ANY NEW BAUXITE MINING VENTURES IN INDONESIA.

B. GOI'S ATTITUDE HAS NOT BEEN FULLY TESTED AND PROBABLY WILL NOT BE BEFORE NOVEMBER, WHEN ALCOA FORMAL DECLARATION OF INTENT IS DUE. AVAILABLE INDICATIONS ARE THAT GOI VERY MUCH WELCOMES ALCOA DECISION.

C. NOTWITHSTANDING IMPRESSION CONVEYED BY LOCAL PRESS, BELIEVE GOI HAS TAKEN RESERVED ATTITUDE TOWARD IBA INITIATIVES. ONLY IBA-GOI CONTRACT WE KNOW OF IS APPROACH BY GUINEAN AMBASSADOR LAST APRIL WHICH GOI COUNTERED BY ASKING TO BECOME AN OBSERVER IN IBA. GOI INTERESTS DIFFER FROM THOSE OF SOME OTHER PRODUCERS IN THAT (I) INDONESIA'S SOLE BAUXITE PRODUCER AT PRESENT IS GOVERNMENT CORPORATION. (II) INDONESIA'S FUTURE AS BAUXITE PRODUCER IS OVERSHADOWED BY PROSPECTS OF BECOMING ALUMINA AND ALUMINUM PRODUCER. CONFIDENTIAL

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(III) INDONESIA IS NOT DEPENDENT ON BAUXITE FOR MAJOR SHARE OF EXPORT EARNINGS: ANY ACTION THAT MIGHT IN FUTURE BE TAKEN AGAINST FOREIGN BAUXITE PRODUCERS (IE ALCOA) WOULD BE EVALUATED IN TERMS OF IMPACT ON OTHER FOREIGN INVESTORS. EVEN THOUGH GOI CONCERN ABOUT INVESTMENT CLIMATE IS PROBABLY DECLINING AS SUBSTANTIALLY-INCREASED OIL REVENUES SWELL GNP AND STATE REVENUES, GOI RETAINS DESIRE FOR FOREIGN PRESENCE IN LARGESCALE,

HIGHLY-TECHNICAL VENTURES. BELIEVE GOI WILL RESIST JOINING IN COLLECTIVIST APPROACH WITH OTHER BAUXITE PRODUCERS EVEN THOUGH INDONESIA WILL EXPLOIT ANY SUCCESS IBA MAY HAVE IN RAISING BAUXITE/ALUMINUM PRICES AND KEEPING UP THE PRESSURE ON GIANT MINING COMPANIES ALL OVER THE WORLD.

D. WHILE INFLUENCE OF OTHER BAUXITE PRODUCERS PROBABLY MARGINAL THERE ARE INDISPUTABLY FORCES AT WORK WHICH FAVOR INCREASED TAX PRESSURES ON FOREIGN CORPORATIONS, AND EARLIER AND HEAVIER INDONESIAN EQUITY PARTICIPATION THAN IN THE PAST (REF B). IN THIS LIGHT IT QUITE CONCEIVABLE GOI MAY PRESS FOR ROYALTIES AND EQUITY PARTICIPATION HIGHER THAN THOSE FOR WHICH CONTRACT OF WORK PROVIDES, WHEN TIME COMES IN NOVEMBER FOR TALKING ABOUT PROPOSED ALCOA MINING/REFINING VENTURE. WE HAVE NO REASON TO EXPECT GOI TO MAKE A SPECIAL CASE OF BAUXITE, HOWEVER, GOI'S OWN INTERESTS (SUBPARAGRAPH 2C) CONSISTENT WITH RESPECTING CONDITIONS EXISTING CONTRACTS OF WORK--INCLUDING NOTABLY ALCOA'S---EVEN THOUGH WE HAVE SEEN SELECTIVE GOI QUESTIONING OF THEIR TERMS PROMPTED BY SHOW OF SPECTACULAR EARNINGS. NEWSOM

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